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**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking to Implement the
Commission's Procurement Incentive Framework
and to Examine the Integration of Greenhouse Gas
Emissions Standards into Procurement Policies.

Rulemaking R.06-04-009

CEC Docket no. D.07-OIIP-01

**REPLY COMMENTS OF THE GREEN POWER INSTITUTE
ON THE PROPOSED JOINT GHG REPORTING PROTOCOL**

July 10, 2007

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Introduction

Pursuant to the June 12, 2007, *Administrative Law Judge's Ruling Regarding Comments on Staff Reporting Proposal*, in R.06-04-009, the **Order Instituting Rulemaking to Implement the Commission's Procurement Incentive Framework and to Examine the Integration of Greenhouse Gas Emissions Standards into Procurement Policies**, the Green Power Institute (GPI) respectfully submits these *Reply Comments of the Green Power Institute on the Proposed Joint GHG Reporting Protocol*. Our Reply Comments focus on the following issues that were raised by the *Opening Comments* of the parties: carbon intensity and resource dispatch, RECs and greenhouse gas certificates, and tracking greenhouse gas emissions.

Carbon Intensity and Resource Dispatch

In our *Opening Comments* we argued that the purpose of the greenhouse gas protocols should not be to preserve the workings of the marketplace in so far as it ignores carbon-intensity as a criterion to be considered in the dispatch equation, nor should the purpose of these protocols be to avoid having the carbon intensity of power sources enter into the dispatch equation in the future. With respect to the emerging forward markets at the California ISO, we warned that while the markets are being designed primarily to promote low-cost dispatch, the greenhouse gas burden of energy procured through ISO markets will inevitably have to be taken into account in the future.

In their *Opening Comments*, the CAISO argued for a constant default emissions factor of 1,100 lbs per MWh for all energy sold through their markets. The basis for suggesting this value is that it is the gateway emissions performance standard (EPS) that was adopted in D.07-01-039. Completely divorcing the emissions factor from the actual source of the

energy sold through the ISO markets, as this proposal would do, accomplishes the goal of keeping considerations of greenhouse gas emissions out of the decision-making process for energy sold through the ISO markets, but in so doing it creates a giant loophole for sneaking high carbon-intensity energy into the marketplace without accountability, and thwarts the achievement of the goals of AB 32. Optimal resource allocation in future energy markets, including forward markets at the ISO, requires that carbon-intensity characteristics be a part of the considerations, along with cost and logistical considerations, that factor into the buy and sell decisions of market participants.

RECs and Greenhouse Gas Certificates

SCE urges the Commission to carefully consider how the AB 32 program, and whatever credits and certificates are created as part of its implementation, interact with the RPS program and renewable energy credits (REC). We agree that this is an area that deserves serious thought. This effort can be conducted on a number of levels, from merely differentiating unambiguously among the various certificates that may be tracked in association with energy generation (RECs, greenhouse gas emissions liabilities, greenhouse gas allowances), to developing integrated compliance programs for the greenhouse gas and RPS programs. We encourage the two Commissions to both begin the process of developing the electronic-tracking system for greenhouse gas emissions liabilities and greenhouse gas allowances, and to begin the process of designing the AB 32 compliance regime for electric (and gas) utilities as quickly as possible, in order to move forward on these important issues.

As an example of the confusion that prevails when we discuss tracking greenhouse gas emissions without considering the kind of compliance regime that will eventually be instituted, consider the issue of the treatment of null energy. CRS, in their *Opening Comments*, argue that null energy (renewable energy that has been unbundled of its RECs) should be assigned the default emissions factor for the region into which it is supplied. SCE, in contrast, argues that even without the REC, the null renewable energy should retain the zero greenhouse gas characteristic of the generator. Depending on the context,

both are correct. If the AB 32 compliance system is based on an accounting system that uses regional emissions factors for unspecified sources, like the one described in the *Joint Proposal*, then CRS is absolutely correct. In order to avoid double counting of renewable attributes in this kind of compliance regime null energy must be treated like all other kinds of unspecified power. On the other hand, if the compliance system is based on electronically tracking greenhouse gas emissions from source (combustion) to retirement (against an allowance), then there is no need to assign any emissions factor to null energy, as suggested by SCE, because emissions factors for unspecified sources will not be a part of the compliance regime.

Tracking Greenhouse Gas Emissions

In their *Opening Comments* many of the parties, including AReM, DRA, CRS, NRDC/UCS, Morgan Stanley, and SDG&E, remark on the lack of focus in the *Joint Proposal* on developing an electronic tracking system for tracking greenhouse gases, including one possibly built onto WREGIS.

In discussing electronic tracking systems like WREGIS, GATS and NEPOOL, Morgan Stanley observes:

Using an approach like this is certainly a way to administer compliance with a load-based GHG requirement. However, no one should be under the illusion that it is anything other than a contractual/financial ownership rights tracking system, not a physical tracking system. (*Opening Comments*, pages 3 – 4.)

We are under no such illusion. Indeed, the whole point of a regional electronic tracking system is to assign and follow ownership rights and responsibilities, not to track electrons or molecules. Generators produce both goods (energy, RECs) and liabilities (greenhouse gas emissions), and the point of the tracking system is to ensure that the RECs are properly and accurately credited to the account of the legitimate claimant, and the liabilities are properly and accurately credited to the account of the unfortunate but responsible entity. RECs can be retired to satisfy APTs and product claims. Greenhouse gas emissions liability certificates can only be retired in conjunction with the retirement of

an equivalent emission allowance. Holding liabilities without acquiring the corresponding allowances will have to carry a penalty, in order for the system to have any teeth.

In the Commission's existing RPS compliance system, only RECs bundled with their underlying energy can be counted towards a California APT. The Commission will soon consider allowing unbundled, tradable RECs to be used for compliance purposes. Similarly, a greenhouse gas reduction program could require greenhouse gas liabilities to be bundled with and transferred with their underlying energy, or it could allow for unbundling and trading of greenhouse gas liabilities. Either way, the key to the program is accurately tracking emissions liabilities, and determining what happens to account holders who end up holding emissions liabilities for which they are unable to acquire offsetting emissions allowances.

Dated July 10, 2007, at Berkeley, California.

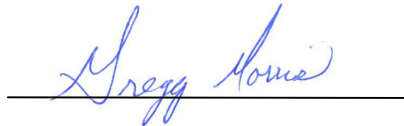
Respectfully Submitted,



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PROOF OF SERVICE

I hereby certify that on July 10, 2007, I have served a copy of the REPLY COMMENTS OF THE GREEN POWER INSTITUTE ON THE PROPOSED JOINT GHG REPORTING PROTOCOL upon all parties listed on the Service List for this proceeding, R-06-04-009. All parties have been served by email or first class mail, in accordance with Commission Rules.



Gregory Morris